

DAYTON

meeting the challenges for growth

Dayton Mining Corporation 1998 Annual Report



Dayton Mining Corporation is a Canadian based international mining company engaged in the exploration, development and operation of precious metals properties.

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cover and this page

Andacollo Gold Mine

1998 was a year of change, challenge and reward for Dayton. In June a new Board of Directors was elected by the shareholders and a new Chairman and CEO was appointed. The task set by shareholders was to address the operational challenges that have affected Dayton's 100% owned Andacollo Gold Mine in central Chile. These issues were largely resolved and resulted in record gold production in the fourth quarter of 1998 and again in the first quarter of 1999. The mine is now generating cash for the parent company. This advance was offset in part during the year by Dayton's lenders cash collateralizing US\$20 million of its outstanding project debt which was subsequently used to pay down the project loan. In January 1999 Dayton reached an agreement with its lenders for repayment of the project loan which now stands at US\$5 million.

With the operation performing at expected levels and the financing of the Andacollo Gold Mine resolved, attention was focused on the last remaining impediment to the Company's growth, the US\$69 million convertible debenture. A proposal was made in the first quarter of 1999 to the debentureholders to exchange their debt for equity. At the March 31, 1999 meeting of debentureholders the exchange of all US\$69 million of unsecured convertible debentures into shares of Dayton was approved. At a subsequent meeting of Dayton shareholders the issuance of 310,500,000 new shares was approved enabling the capital restructuring to be completed.

This reorganization of Dayton's capital structure was the final step in positioning Dayton for future growth. With the Andacollo Gold Mine performing well, the agreement with our lenders on the project loan in place, and the simplified and clean balance sheet provided by this restructuring, Dayton is in a stronger position to take advantage of strategic opportunities in this gold market and to increase shareholder value.

As the new Chairman and CEO of Dayton Mining Corporation, I am pleased to review the Company's activities and operations in 1998 and to share our goals and objectives for the future of Dayton.

Operations

The Andacollo Gold Mine completed its third year of commercial production in 1998 producing 92,548 ounces of gold at a cash operating cost of US\$241 per ounce. The lower than budgeted gold production during the year was mainly due to difficulties in mining the higher grade Socorro deposit. Old stopes and underground workings posed problems with scrap metal and the generation of oversized material caused delays in mining and reduced crusher throughput. Also, due to the inability to recover the planned tonnage of higher grade ore from Socorro, lower grade material from the Tres Perlas West deposit had to be substituted. Additionally there was a reconciliation problem between blast holes and the

Production for 1998:

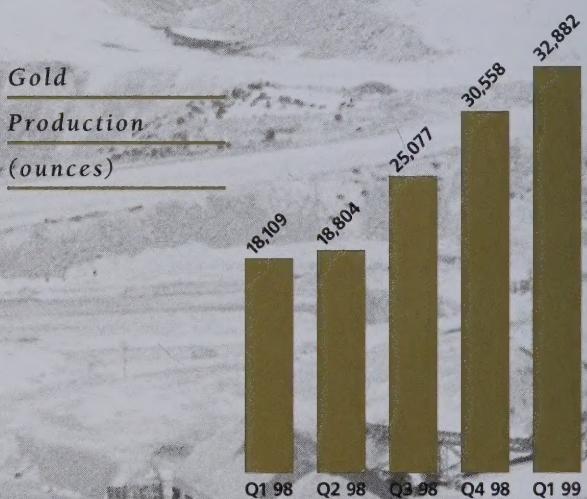
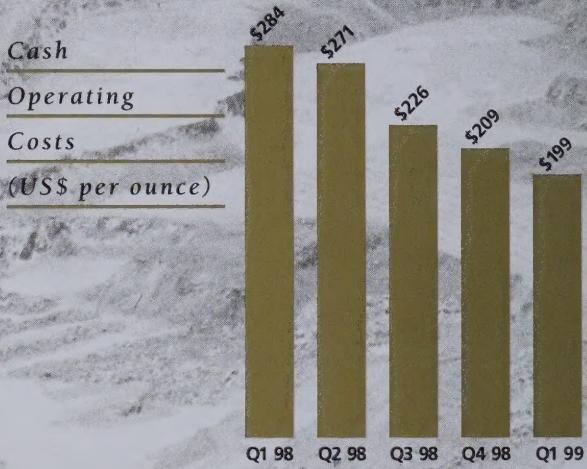
Total Material Mined	26,400,000 tonnes
Ore Crushed	5,525,000 tonnes
Grade Crushed	0.83 g/t
Gold Produced	92,548 ounces
\$/tonne Mined	\$0.58
\$/tonne Crushed	\$4.03
Cash Cost	\$241 per ounce

Amounts in US dollars, net of deferred stripping and inventory adjustment.

crushed ore grade with Socorro material. It was determined that this inconsistency was due in large part to the relatively coarse gold that occurs at Socorro. With the addition of new sample preparation equipment, sample preparation protocols and implementing screen fire assaying of the blast holes, grade control improved significantly.

The comprehensive review of sample preparation and grade control practices and procedures initiated at Andacollo yielded significant improvements in gold production in the fourth quarter of 1998. Additional consultants were retained during the third quarter of 1998 to review heap performance and recovery, assist with improving the crushing system operating time and to assist with pit design and mine planning activities. The result of these efforts and management changes at Andacollo yielded record monthly production during the fourth quarter of the year. This trend continues into 1999.

Management plans to increase production at Andacollo to approximately 138,000 ounces in 1999 at a cash cost of US\$190 per ounce. Ore will continue to be mined from the Socorro and Churrumata deposits during 1999 with two additional deposits, Natalia and Chisperos, scheduled to come into production later in the year.



The resource and mineable reserve estimates at December 31, 1998 were completed by Andacollo staff and audited by Mine Reserve Associates of Denver, Colorado. The resource figure is at a 0.3 gram per tonne cut-off while reserves are quoted on the basis of a US\$325 per ounce gold price. They are as follows:

Resources:		Tonnes 000's	Grade (gpt)	Contained Ounces	
Year					
31 Dec 1998		134,582	0.64	2,787,000	
Reserves:		Tonnes 000's	Grade (gpt)	Contained Ounces	Stripping Ratio
Year	Gold Price				
31 Dec 1998	US\$325	30,983	0.865	862,100	1.84

The reduction in reserves compared to year-end 1997 reserves (1.3 million ounces at a gold price of US\$350) is a result of additional drill information, the use of a lower gold price, the mining of 176,500 ounces of gold in 1998, revised pit slopes, ore losses in the Socorro deposit and a re-interpretation of the Socorro and Churumata reserve models.

Dayton Chile spent approximately US\$1.1 million in 1998 on exploration at the Andacollo Gold Mine property drilling approximately 13,000 meters. Dayton has budgeted to spend approximately US\$400,000 in further exploration on the Andacollo Gold Mine in 1999.

Mineable Gold Reserves (ounces)

sensitivity
of gold reserves
to changes in
price of gold



Gold Price (US\$)

In 1998 Dayton Mining Corporation had a net loss of \$64.8 million (\$1.73 per share, after recognizing the effect of the interest on the convertible debentures) compared with a net loss of \$27.6 million (\$0.78 per share) for 1997. Revenues were \$45.8 million for the year compared with \$49.6 million for 1997.

Using a gold price of US\$325 per ounce, Dayton has reviewed the carrying value of its mining assets and written these assets down by \$51 million in 1998. Marketable securities have also been written down by \$0.8 million in 1998. Cash flow from operations for 1998 was \$4.0 million compared with \$10.5 million in 1997.

The Company realized an average gold price of US\$336 per ounce in 1998 compared with US\$402 per ounce in 1997. Dayton's hedging program for 1999 consists of 84,000 ounces of puts at US\$340 per ounce. These hedges are spread evenly over the year at 7,000 ounces per month.

In March 1999 the debentureholders approved a proposal to exchange all of the US\$69 million unsecured convertible debentures into common shares of Dayton. The shareholders approved the issuance of these new shares thereby enabling the capital restructuring to be completed. The debentures were converted at a rate of 4,500 shares for each US\$1,000 principal amount of Debentures. The Company issued an additional 310,500,000 new shares bringing the total issued and outstanding shares to approximately 351,356,779. A proposal to do a 1 for 10 share consolidation was not approved.

Under Canadian accounting this type of capital restructuring meets the requirements of Section 1625 of the Canadian Institute of Chartered Accountants Handbook which requires a comprehensive revaluation of assets and liabilities or "fresh start" accounting. In addition to eliminating the debentures, the Company's deficit will be eliminated and all assets and liabilities will be revalued to their estimated fair value.

Exploration

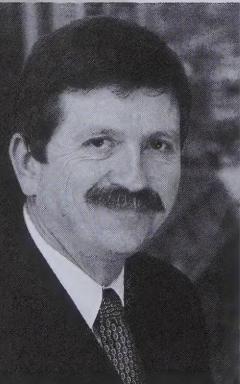
Andacollo

Exploration at the Andacollo site consisted of 13,000 meters of reverse circulation drilling concentrated primarily in the northern area of the Churrumata deposit where surface rights were acquired early in the year.

At a 0.3 gram per tonne cut-off the resource figure remained essentially unchanged from the previous year-end. The amount of material that was converted into ore reserve category went down.

Exploration in 1999 will be focused on evaluating the mineralized potential of the andesitic flow breccias which underlie the Socorro deposit as well as in-fill drilling in the Natalia and Chisperos deposits. The exploration staff will also be conducting a comprehensive review of all exploration data acquired to date as part of developing a forward looking model for potential mineralization within Dayton's claim block and the Andacollo District

Strategic Direction



Being in the gold business means continuing to grow. Single mine companies generally suffer from relatively high overheads on a unit of production basis and do not enjoy the premiums provided by the equity markets to companies with multi-mine and exploration portfolios.

Dayton has recognized for some time the need to grow, but has been frustrated by a non-performing mine and an encumbered balance sheet. These issues have been resolved and Dayton is now in a position to move forward.

Your company is actively seeking a business combination that will provide value to shareholders. We have a lot to offer:

- A respectable and real production profile for the next six years
- Proven project development ability
- Proven operating expertise in open pit mining and heap leaching

Golden Palm

During 1998 Dayton Mining agreed to a private placement in Golden Palm Resources Ltd (GPR-VSE) in the amount of \$500,000. Golden Palm issued to Dayton 3.33 million units at a price of \$0.15 per unit. Each unit consists of one common share and one share purchase warrant which entitles Dayton to acquire an additional common share of Golden Palm at a price of \$0.15 per share for a period of one year. Dayton has the right to earn a 60 percent interest in Golden Palm's properties and have the option of increasing equity ownership in Golden Palm.

Golden Palm Resources controls approximately 90,000 hectares (222,000 acres) of prospective gold properties in Minas Gerais state, Brazil. The package includes two drill-stage exploration projects, several other high-priority exploration targets and numerous other properties at various stages of exploration.

- An "operatorship" status that is critical to project financing
- An experienced and diversified corporate and operating management group

With these attributes and abilities in place, we are well positioned to take an active and leading role in the process of consolidation that needs to occur in the junior gold sector.

We thank our new and old shareholders for staying with us through these difficult times.

William H. Myckatyn

Chairman of the Board,
President & Chief Executive Officer
May 1999

Management's Discussion and Analysis of Financial Condition and Results of Operations

(all amounts in Canadian dollars unless otherwise stated)

This discussion and analysis of the results of operations and financial condition of the Company should be read in conjunction with the consolidated financial statements and the related notes which have been prepared in accordance with accounting principles generally accepted in Canada. Differences from United States generally accepted accounting principles are described in the consolidated financial statements. Dayton's only current mining project with identified mineable ore reserves is the 100% owned Andacollo Gold Mine in central Chile. Commercial operations began at the Andacollo Gold Mine on January 1, 1996. Approximately 92,548 ounces of gold were produced in 1998 at a cash operating cost of US\$241 per ounce. In 1998, the Company realized an average sale price of US\$336 per ounce of gold.

General

Development and construction of the Andacollo Gold Mine as a 12,700 tonnes per day ("tpd") heap leach gold mine began in July 1994 and was completed in September 1995. The construction was partly funded out of proceeds of a Cdn \$34 million equity offering in May 1994 and a US\$50 million project financing which was completely drawn down by September 1995.

Production from the Andacollo Gold Mine commenced in September 1995. On January 1, 1996, the Andacollo Gold Mine commenced commercial production and in 1996 produced 87,650 ounces of gold at a cash cost of US\$205 per ounce. In 1997, the Andacollo Gold Mine produced 91,347 ounces of gold at a cash operating cost of US\$251 per ounce. Production was lower than expected during 1997 due to shutdowns for improvements to the crushing and processing circuits, and exceptionally bad weather. In the first half of 1998, the Andacollo Gold Mine continued to struggle operationally due to lower than projected ore grades. However, as a result of improvements made in the last half of the year, the Andacollo Gold Mine produced 30,558 ounces in the fourth quarter of 1998 at a cash cost of US\$209 per ounce, and produced 92,548 ounces of gold at a cash operating cost of US\$241 per ounce for the 1998 year.

Results of Operations

1998 COMPARED WITH 1997

The net loss for the year increased from \$27,619,000 or \$0.78 per share in 1997 to \$64,849,000 or \$1.73 per share in 1998. The increase in loss was due primarily to a \$51,000,000 writedown in 1998 of the Andacollo Gold Mine compared to a \$24,000,000 writedown in 1997 of the Andacollo Gold Mine. The writedowns for 1997 and 1998 were based upon future gold prices of US\$340 and US\$300 per ounce, respectively, and using the year end reserves. Revenues from gold sales and related gold hedging activities were \$45,848,000 in 1998 compared to \$49,553,000 in 1997. The reduction in gold revenues was due to the lower realized gold price in US dollars offset in part by the effect of the stronger US dollar versus the Canadian dollar in 1998. Cost of sales was \$33,101,000 in 1998 compared to \$31,685,000 in 1997. Depreciation, depletion, and amortization was \$11,774,000 in 1998 compared to \$10,555,000 in 1997. This resulted in a net income from gold mining activities of \$973,000 in 1998 compared to \$7,313,000 in 1997. The decrease in interest revenue of \$2,158,000 was due to lower cash balances during the year. The decrease in interest expense of \$1,949,000 was due primarily to a lower loan balance during 1998 as a result of paying it down from \$61,307,000 at the beginning of 1998 to \$27,339,000 by the end of 1998. The \$2,884,000 increase in general and administrative expenses was due primarily to payments related to the departure of two Chief Executive Officers during 1998 and costs related to a proxy contest in June 1998.

1997 COMPARED WITH 1996

The net loss for the year increased from \$3,409,000 or \$0.10 per share in 1996 to \$27,619,000 or \$0.78 per share in 1997. The increase in loss was due primarily to a \$24,000,000 writedown in 1997 of the Andacollo Gold Mine and a \$976,000 writedown of marketable securities. Revenues from gold sales and related gold hedging activities were \$49,553,000 in 1997 compared to \$45,996,000 in 1996. Operating cost of sales was \$31,685,000 in 1997 compared to \$24,545,000 in 1996. Depreciation, depletion, and amortization was

\$10,555,000 in 1997 compared to \$11,104,000 in 1996. This resulted in a net income from gold mining activities of \$7,313,000 in 1997 compared to \$10,347,000 in 1996. The increase in interest revenue of \$3,961,000 and the increase in interest expense of \$1,045,000 were due primarily to the convertible debentures. The \$431,000 decrease in amortization of deferred financing costs and \$328,000 decrease in general and administrative expenses were offset by a \$213,000 increase in exploration expense.

1996 COMPARED WITH 1995

The net loss for the year decreased from \$3,526,000 or \$0.12 per share in 1995 to \$3,409,000 or \$0.10 per share in 1996. Revenues from gold sales were \$45,996,000 in 1996, operating cost of sales was \$24,545,000 and depreciation, depletion, and amortization was \$11,104,000 in 1996 with no equivalent in 1995. This resulted in a net income from gold mining activities of \$10,347,000 which was offset by an increase in expensed interest and financing charges of \$8,662,000 and an increase in general and administrative expenses of \$2,496,000 due to increased personnel and mine related administrative costs. Interest income increased by \$602,000 as a result of higher average cash balances from the proceeds of the special warrants financing completed in January 1996.

Liquidity, Capital Resources and Financial Condition

For 1998 cash provided by operations was \$4.0 million compared with cash provided by operations of \$10.5 million in 1997. The \$6.5 million decrease in cash flow from operations was primarily due to the \$3.7 million reduction in revenue and the \$2.9 million increase in general and administrative costs. Cash used by financing activities in 1998 was \$41.7 million due primarily to bank loan repayments of \$36.5 million and convertible debenture interest payments. In 1997 financing activities provided \$87.4 million, primarily due to the net proceeds from a convertible debenture offering in February 1997 of \$90.8 million. Cash used for investing activities increased from \$20.2 million in 1997 to \$26.1 million in 1998 due to an expansion of the leach pad, the leasing of additional mining equipment and deferred stripping at the Andacollo Gold Mine.

The profitability and liquidity of the Company is most significantly influenced by the price it obtains for the sale of gold, gold production levels and operating costs. The Company has hedged some of the gold price risk by acquiring puts that give the Company the right to deliver gold, at monthly intervals, at a fixed price per ounce if the then current price of gold is below that fixed level. At December 31, 1998, there were 84,000 ounces of puts outstanding at US\$340 per ounce. This gold hedge program assures, during 1999, a minimum price of US\$340 per ounce for approximately 60% of the Company's anticipated gold production. The Company also has written calls on a total of 7,460 ounces of gold at US\$434 per ounce over January and February 1999. The Company anticipates using further hedging strategies in future years to manage its exposure to price risk. In 1998, the Company realized an average price of US\$336 per ounce.

Capital expenditures of US\$0.8 million (excluding leased mining equipment) are planned in 1999, and relate primarily to plant enhancements at the Andacollo Gold Mine. These expenditures are expected to be funded from cashflow from operations and available cash. In addition, the Company plans to spend approximately US\$0.4 million on exploration and also plans to expend funds on corporate development activities in 1999.

At December 31, 1998 US\$17.9 million was outstanding under the Credit Facility. At the prevailing gold prices and loan life at that date, the Andacollo Gold Mine was not in compliance with certain economic tests under the Credit Facility. In January 1999 the loan was renegotiated with its banks and was paid down to US\$6.0 million. The banks also agreed that the interest rate of the Credit Facility would continue at the rate of LIBOR plus 1.25%. The banks agreed to waive the defaults under the economic tests until April 19, 1999 and agreed to modifications to certain economic default clauses thereafter. As at May 1999 there is US\$5 million outstanding under the Credit Facility of which US\$2 million is cash collateralized. The Company believes it is in compliance under the Credit Facility as modified by the Amending Agreement. Actual compliance is dependent upon the banks' concurrence with management information.

The Company is committed to constructing and operating its projects to minimize the effects of its operations on the environment. The design criteria and construction plan for the Andacollo Gold Mine generally reflect U.S. standards and practice for environmental protection and exceed the requirements of current environmental laws and regulations in Chile. The Company is not aware of any proposed change in such laws and regulations which would require a change in the manner in which it operates the mine. The Company has developed a closure plan for the mine and has established and is accruing for this purpose at the rate of US\$0.022 for each tonne of ore processed.

Year 2000 Readiness

The Year 2000 issue stems from the fact that some computerized systems were designed to recognize only the last two digits rather than four to identify an applicable year. These computerized systems may recognize a date of "00" as 1900 rather than 2000, which could result in systems failures or miscalculation leading to disruptions in normal business operations. Such failures may affect not only the hardware and software in the Company's information systems, but may also affect the imbedded computers that control the Company's mining and processing machinery and the Company's office equipment and security systems.

The Company has commenced a detailed review of Year 2000 compliance of its systems. This consists of developing an inventory of all systems and assessing the risks associated with the possible Year 2000 non-compliance of these systems. Such a review will be completed by early spring 1999. Critical systems found not to be Year 2000 compliant will be upgraded or replaced in the summer of 1999. Testing and final implementation of critical systems will be completed by autumn 1999. The remediation of non-critical systems is expected to be completed by the end of the year. Commercial electronic interaction with third parties is minimal and the Company expects no significant disruption to its ability to sell its mineral production. The Company has prepared a Year 2000 questionnaire and is communicating with significant suppliers to assess their Year 2000 compliance. The Company is developing plans to mitigate the risks of supply problems of power, water and critical consumables.

Given the nature of the risk, and notwithstanding the Company's efforts, the Company cannot be certain that its Year 2000 compliance efforts and those of its suppliers will be fully resolved without a material adverse impact on operations, liquidity or financial condition. However, the Company believes it has in place a Year 2000 compliance program which will minimize the overall impact that known Year 2000 issues may have on operations, liquidity and financial condition. The past and expected future costs of the Year 2000 compliance effort are not expected to be material and are charged to earnings in the period incurred.

Inflation and Changing Prices

The Andacollo Gold Mine commenced commercial production in January 1996 and until then was not directly affected operationally by trends relating to the price of gold or inflation costs. The price of gold is unpredictable and affected by many factors beyond the control of the Company. The Company has entered into gold option contracts to assure minimum revenues of US\$340 per ounce over approximately 84,000 ounces of future production. The Andacollo Gold Mine is located in Chile which is presently considered a desirable location for gold mining. However, operating costs will be affected by local inflation rates, which have been declining steadily in recent years, and by the Chilean exchange rate. No satisfactory current market exists for long-term hedging of Chilean currency.

Outlook

The Company's only operating asset is the Andacollo Gold Mine which commenced production in September 1995. Until late in 1998 the mine produced significantly less gold, and hence significantly less cash flow, than had been predicted. The primary reasons for the shortfall were initially a longer than anticipated leach cycle, and in subsequent years a significantly lower grade of ore than was anticipated and, lower crusher throughput than budgeted. Despite the benefit of a gold hedging program that has guaranteed minimum prices of approximately US\$368 per ounce of gold for 443,000 ounces of production, the operation during those years was unable to service the repayment of bank debt (which amounted to US\$43 million between October 1996 and January 1999)

or fund the ongoing capital requirements post-construction (which, net of leased mining equipment, totalled approximately US\$18 million).

In 1997 the Company issued a US\$69 million 7% convertible debenture, the proceeds from which were used primarily to service the bank debt, support capital expenditures at the mine and service interest on the Debentures of approximately US\$4.8 million per annum. By August 1998 the market price for gold had declined to its lowest level in over eighteen years and has remained below US\$300 per ounce for most of the time since then. At these lower gold prices, despite the operational improvements that had occurred at the Andacollo Gold Mine, there was no assurance that the Company would not default on its obligations to pay interest on the Debentures at some time prior to maturity. In view of this, and a number of other factors including the Andacollo Gold Mine's anticipated limited exploration potential, the relatively short mine life, the relative insensitivity of reserves to an increase in gold price and the highly leveraged capital structure of the Company, the

Company's directors proposed to its debentureholders and shareholders on March 1, 1999 a transaction which would convert all the US\$69,000,000 of Debentures into 310,500,000 common shares of the Company. This transaction was approved on March 31, 1999 and is being treated for Canadian accounting purposes as a financial reorganization resulting in the comprehensive revaluation of the assets and liabilities of the Company. Under these rules, the liability related to the Debentures is eliminated, and all assets and liabilities are being revalued to their estimated fair values effective March 31, 1999.

During 1999 the Andacollo Gold Mine is expected to produce approximately 138,000 ounces of gold at a cash cost of US\$190 per ounce. For reporting purposes the 1999 financial year results will be reported on two bases, for the first quarter to March 31, 1999 reporting will be on the same basis as that was used for the December 31, 1998 financial year, and thereafter on the basis of the comprehensive revaluation.

Management's Responsibility for Financial Reporting

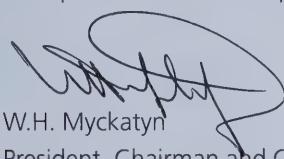
TO THE SHAREHOLDERS OF DAYTON MINING CORPORATION

The accompanying consolidated financial statements of the Company were prepared by management in accordance with accounting principles generally accepted in Canada, consistently applied and within the framework of the summary of significant accounting policies in these consolidated financial statements. Management is responsible for all information in the annual report. All financial and operating data in the annual report is consistent, where appropriate, with that contained in the consolidated financial statements.

A system of internal accounting control is maintained in order to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities.

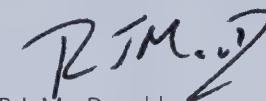
The Board of Directors discharges its responsibilities for the consolidated financial statements primarily through activities of its Audit Committee composed of three directors, none of whom are members of management. This Committee meets with management to assure that it is performing its responsibility to maintain financial controls and systems and to approve the annual consolidated financial statements of the Company. The Audit Committee also meets with the independent auditors to discuss the results of their audit, their review of internal accounting controls and their audit report prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited on behalf of the shareholders by the Company's independent auditors PricewaterhouseCoopers LLP, in accordance with generally accepted auditing standards. The auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements.



W.H. Myckatyn

President, Chairman and Chief Executive Officer



R.J. MacDonald

Senior Vice President, Finance and Chief Financial Officer

Auditor's Report

TO THE SHAREHOLDERS OF DAYTON MINING CORPORATION

We have audited the consolidated balance sheets of Dayton Mining Corporation as at December 31, 1998 and 1997 and the consolidated statements of loss, deficit and changes in financial position for each of the years in the three year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1998 in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.



Chartered Accountants

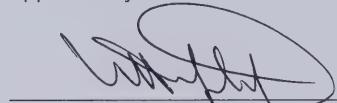
Consolidated Balance Sheets

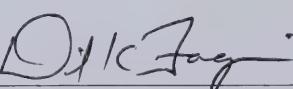
in thousands of Canadian dollars

AT DECEMBER 31

	1998	1997
	\$	\$
Assets		
CURRENT ASSETS		
Cash and short-term investments (note 7)	31,626	95,237
Investments in marketable securities (note 3)	533	839
Bullion settlements receivable	2,602	2,950
Accounts receivable	2,665	3,841
Inventories (note 4)	13,760	9,521
Total current assets	<u>51,186</u>	<u>112,388</u>
PROPERTY, PLANT AND EQUIPMENT (note 5)	68,919	105,729
DEFERRED CHARGES AND OTHER ASSETS (note 6)	4,460	4,826
	<u>124,565</u>	<u>222,943</u>
Liabilities		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	10,813	9,812
Bank loan – current portion (note 7)	24,787	61,307
Capital leases payable – current portion (note 8)	5,168	3,596
Convertible debentures – current portion (notes 9 and 20)	3,697	6,673
Total current liabilities	<u>44,465</u>	<u>81,388</u>
LONG-TERM LIABILITIES		
Bank loan (note 7)	2,552	–
Capital lease payable (note 8)	8,143	7,233
Convertible debentures (notes 9 and 20)	18,990	19,605
Accrued closure costs	2,087	1,540
Total long-term liabilities	<u>31,772</u>	<u>28,378</u>
Total liabilities	<u>76,237</u>	<u>109,766</u>
Shareholders' Equity		
SHARE CAPITAL (note 9)	90,714	90,714
1998 – 40,856,779 common shares		
1997 – 40,856,779 common shares		
CONVERTIBLE DEBENTURES (notes 9 and 20)	73,810	67,904
DEFICIT	(116,196)	(45,441)
Total shareholders' equity	<u>48,328</u>	<u>113,177</u>
	<u>124,565</u>	<u>222,943</u>

Approved by the Board of Directors:

 Director

 Director

See accompanying notes to the financial statements.

Consolidated Statements of Loss

in thousands of Canadian dollars

FOR THE YEARS ENDED DECEMBER 31	1998	1997	1996
	\$	\$	\$
REVENUES			
Gold sales	45,848	49,553	45,996
COST OF SALES			
Operating cost of sales	33,101	31,685	24,545
Depreciation, depletion and amortization	11,774	10,555	11,104
Total cost of sales	44,875	42,240	35,649
	973	7,313	10,347
EXPENSES			
Amortization of deferred financing costs	982	1,788	2,219
Exploration	934	813	600
Foreign exchange	1,228	(390)	(52)
General and administrative expenses	7,531	4,647	4,975
Interest expense	6,065	7,979	6,934
Interest income	(2,723)	(4,881)	(920)
Writedown of property, plant and equipment (note 5)	51,000	24,000	—
Writedown of marketable securities	805	976	—
Total expenses	65,822	34,932	13,756
NET LOSS FOR THE YEAR	(64,849)	(27,619)	(3,409)
LOSS PER SHARE, including effect of accretion of equity component of convertible debentures	\$ (1.73)	\$ (0.78)	\$ (0.10)
Weighted average common shares outstanding (000's)	40,857	40,854	35,477

Consolidated Statements of Deficit

FOR THE YEARS ENDED DECEMBER 31	1998	1997	1996
	\$	\$	\$
DEFICIT – BEGINNING OF YEAR			
Net loss for the year	(45,441)	(13,500)	(10,091)
Accretion of equity component of convertible debentures	(64,849)	(27,619)	(3,409)
DEFICIT – END OF YEAR	(5,906)	(4,322)	—
	(116,196)	(45,441)	(13,500)

See accompanying notes to the financial statements.

Consolidated Statements of Changes in Financial Position

in thousands of Canadian dollars

FOR THE YEARS ENDED DECEMBER 31	1998 \$	1997 \$	1996 \$
OPERATING ACTIVITIES			
Net loss for the year	(64,849)	(27,619)	(3,409)
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation, depletion and amortization	11,774	10,555	11,104
Amortization of deferred financing costs	982	1,788	2,219
Amortization of deferred foreign exchange	4,229	711	(92)
Amortization of other assets	43	51	24
Writtenown of property, plant and equipment	51,000	24,000	–
Writtenown of marketable securities	805	976	–
Cashflow from operations	3,984	10,462	9,846
Change in non-cash working capital (note 16)	181	(4,509)	(2,397)
Cash provided by operating activities	4,165	5,953	7,449
INVESTING ACTIVITIES			
Property, plant and equipment	(16,442)	(18,641)	(14,366)
Deferred stripping	(9,522)	–	–
Purchase of marketable securities	(500)	(1,815)	–
Other assets	398	242	148
Cash used for investing activities	(26,066)	(20,214)	(14,218)
FINANCING ACTIVITIES			
Share capital	–	227	38,520
Convertible debentures	(7,184)	90,847	(18,526)
Bank loan	(36,520)	(4,830)	(4,818)
Capital lease obligation	1,447	581	1,307
Other accrued liabilities	547	559	418
Cash provided by (used for) financing activities	(41,710)	87,384	16,901
NET INCREASE (DECREASE) IN CASH AND SHORT TERM INVESTMENTS	(63,611)	73,123	10,132
CASH AND SHORT TERM INVESTMENTS – BEGINNING OF YEAR	95,237	22,114	11,982
CASH AND SHORT TERM INVESTMENTS – END OF YEAR	31,626	95,237	22,114
CASH AND SHORT TERM INVESTMENTS – END OF YEAR CONSISTS OF:			
Cash and short term investments	11,932	72,758	15,266
Restricted cash	19,694	22,479	6,848
CASH AND SHORT TERM INVESTMENTS – END OF YEAR	31,626	95,237	22,114

See accompanying notes to the financial statements.

Notes to the Consolidated Financial Statements

AT DECEMBER 31

tables stated in thousands of Canadian dollars

1 Nature of Operations

The Company owns the Andacollo Gold Mine, an open pit, heap-leach mine in Chile. The mine commenced commercial production on January 1, 1996.

2 Significant Accounting Policies

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements are presented in accordance with generally accepted accounting principles applicable in Canada and have been reconciled to generally accepted accounting principles applicable in the United States as disclosed in note 17. Certain of the prior year figures have been restated to conform to the current year presentation.

PRINCIPLES OF CONSOLIDATION

These financial statements include the accounts of the Company's wholly owned subsidiaries, 544459 B.C. Ltd., Dayton Mining (U.S.) Inc., DMC Cayman Inc., Andacollo Gold Inc., La Serena Inc., Dayton Chile Exploraciones Mineras Limitada and Compañía Minera Dayton.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and writedowns and are depreciated using the unit of production method over proven and probable reserves. Revenue and operating costs in 1995 during the pre-production period were credited or charged, as appropriate, against property, plant and equipment costs.

Annually, reviews are undertaken to evaluate the carrying values of operating mines and development properties. If it is determined that the estimated net recoverable amount calculated on an undiscounted basis is significantly less than the carrying value, a writedown to the net recoverable amount is made by a charge to earnings.

All exploration expenditures are expensed as incurred. Significant property acquisition payments for active exploration properties are capitalized. If no mineable orebody is discovered, previously capitalized costs are expensed in the period the property is abandoned. Expenditures for the development of new mines, to define further mineralization in existing orebodies, and to expand the capacity of operating mines, are capitalized and amortized on a units of production basis over recoverable ounces.

Waste rock removal costs are deferred to the extent the stripping ratio exceeds the life of mine average, and charged to operating income when the stripping ratio is less than the life of mine average. In prior periods, actual costs of waste rock removal approximated costs calculated based on the life of mine stripping ratio, and were expensed in the period incurred.

MARKETABLE SECURITIES

Marketable securities are carried at the lower of cost and market value.

INVENTORIES

Production inventories, comprising ore on the leach pads and gold in process, and mine operating supplies are valued at the lower of average cost and net realizable value.

DEFERRED CHARGES

Deferred charges represent financing and foreign exchange costs on the bank loan, and foreign exchange on the Andacollo Contingency Account and the convertible debenture. These costs are being amortized using the interest method whereby amortization is calculated using the loan balance outstanding over the expected term of the debt.

CONVERTIBLE DEBENTURES

Upon issuance, the convertible debenture was classified into its equity and financial liability components. The financial liability is accreted by way of a charge to earnings and interest payments are applied against the accrued financial liability. Accretion of the equity instrument is recorded as a direct charge to retained earnings.

REVENUErecognition

Sales of precious metals are recorded at the estimated net realizable value when the metals are available for delivery.

FINANCIAL INSTRUMENTS

The carrying amounts for cash and short term investments, bullion settlements receivable, accounts receivable and accounts payable approximate fair value because of the limited term of these instruments. Fair value estimates are made at the balance sheet date, based on relevant market information and information about financial instruments. These estimates are subjective in nature and involve uncertainties in significant matters of judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The fair value of investments, bank debt, and the convertible debentures are disclosed in notes 3, 7 and 9, respectively.

CLOSURE COSTS

Reclamation costs and related accrued liabilities, which are estimated based on the Company's interpretation of current environmental and regulatory requirements, are accrued and expensed principally by the units of production method based on estimated proven and probable reserves. Reclamation costs are included in general and administrative expenses, and provisions for statutory severances are included in operating costs.

HEDGING TRANSACTIONS

To manage its exposure to fluctuations in the market price of gold and to establish minimum prices for certain of its future production, the Company enters into gold hedging contracts. Gains and losses on these contracts are not recognized in income until reflected in sales revenue when the related production is delivered. The premiums paid for the acquisition of hedging contracts are deferred and netted against revenue in the period the contracts expire.

TRANSLATION OF FOREIGN CURRENCY

The accounts of foreign operations are translated into Canadian dollars as follows:

- monetary assets and liabilities at the rates of exchange prevailing at the balance sheet date.
- other assets and liabilities at applicable historical exchange rates.
- revenues and expenses at the average rate of exchange for the year except for non-monetary expenses which are at the rates used for the translation of the related assets.
- exchange translation gains and losses are included in earnings except for those on long term monetary items which are deferred and amortized over the life of the item.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CONCENTRATION OF CREDIT RISK

Cash includes cash and short-term deposits maturing within 90 days of the original date of acquisition. In order to limit its exposure to credit risk, the Company diversifies its selection of counterparties for the placement of short term deposits. The Company places its cash and short term investments with major chartered banks or in high quality financial instruments. The Company believes that no concentration of credit risk exists with respect to cash and short term investments.

3 Investments in Marketable Securities

	1998	1997
	\$	\$
Investments in publicly traded shares	533	839
Cost \$2,315 (1997: \$1,815)	<hr/> <hr/>	<hr/> <hr/>

4 Inventories

	1998	1997
	\$	\$
Production inventory	10,908	7,424
Supplies inventory	2,852	2,097
	<hr/> <hr/>	<hr/> <hr/>
	13,760	9,521

5 Property, Plant and Equipment

Included in mining properties and deferred costs is US\$1,250,000 for advance minimum royalty payments, made prior to commencement of commercial production, which is being amortized over the life of the project on a unit of production basis (note 15).

	1998		
	Cost	Accumulated writedown	Accumulated depreciation
			Net
Mining properties and deferred costs	46,529	37,260	9,269
Plant and equipment	121,301	28,218	24,164
Deferred stripping	9,522	9,522	—
	177,352	75,000	33,433
			68,919
	1997		
	Cost	Accumulated writedown	Accumulated depreciation
			Net
Mining properties and deferred costs	43,524	24,000	6,218
Plant and equipment	107,864	—	15,441
	151,388	24,000	21,659
			105,729

6 Deferred Charges and Other Assets

	1998			1997		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Deferred financing costs	4,327	3,950	377	4,327	2,967	1,360
Deferred foreign exchange	8,662	4,816	3,846	3,956	666	3,290
Other assets	545	308	237	442	266	176
	13,534	9,074	4,460	8,725	3,899	4,826

7 Bank Loan and Restricted Cash

	1998		1997	
	US\$	Cdn\$	US\$	Cdn\$
Restricted cash:				
Andacollo Contingency Account	5,000	7,665	5,000	7,153
Principal Escrow Account	—	—	10,714	15,326
Deposit & Charge Account	7,857	12,029	—	—
	12,857	19,694	15,714	22,479
Bank loan:				
Current portion	16,190	24,787	42,857	61,307
Long term portion	1,667	2,552	—	—
	17,857	27,339	42,857	61,307

A) BANK LOAN

In October 1994 the Company entered into a US\$50,000,000 bank credit facility to finance the construction of the Andacollo Gold Mine. The credit facility was for a maximum of approximately five years and the loan principal was originally repayable in fourteen quarterly payments of approximately US\$3,571,000 beginning in October 1996. In addition to the minimum required repayments, on each payment date the Company was required to prepay a portion of the principal outstanding based on a percentage of excess cash flow, as defined, from the Andacollo Gold Project in the preceding six month period. Each prepayment was to be applied against the then final scheduled quarterly payment.

Interest is payable at the London Interbank Offer Rate ("LIBOR") plus 1.250% at December 31, 1998 (see note 7D) (1997: LIBOR plus 2.375%). The assets of Compañía Minera Dayton have been pledged as collateral for amounts borrowed under the credit facility. Under the credit facility the Company must maintain certain financial ratios and achieve certain operating results on an ongoing basis.

At December 31, 1998 the Andacollo Gold Mine was not in compliance with certain economic tests under the credit facility. Subsequent to the year end, the Company reached an agreement with its banks whereby the Events of Default (as defined) were waived until April 19, 1999 (see note 20).

All indebtedness of the Company, excluding the convertible debentures, is at variable based lending rates and rates on these debt facilities are comparable to those which would have been commercially available to the Company as of the year end date. Accordingly, the debt at December 31, 1998 is stated at amounts that approximate fair value.

During 1997, the Company issued US\$69,000,000 of convertible debentures. The stated use of proceeds included repayment of the Company's bank loan. Accordingly, the bank loan was classified in current liabilities in 1997.

B) ANDACOLLO CONTINGENCY ACCOUNT

The "Andacollo Contingency Account" of US\$5,000,000 was held to satisfy the minimum principal repayments due under the terms of the bank loan. These funds will be available to the Company on an unrestricted basis if certain debt reserve requirements have been met or the loan is repaid. The funds are being invested in money market instruments and the interest income earned is received by the Company on a quarterly basis. On January 19, 1999, US\$3,000,000 from this account was applied to the bank loan (see note 20).

C) PRINCIPAL ESCROW ACCOUNT

In March 1997, the Company agreed with its banks to defer the three principal payments remaining in 1997 to January 1998. As part of the agreement the Company placed US\$10,714,000 into a restricted account to satisfy this principal payment due in January 1998. The required principal payment was made as scheduled on January 20, 1998 and this restriction was lifted.

D) DEPOSIT & CHARGE ACCOUNT

In July 1998, the Company agreed with its banks to make a deposit to a restricted account of US\$11,430,000 as additional collateral for the bank loan. Under this agreement, all "Events of Default" were waived by the banks to November 30, 1998 and the interest rate on the loan was reduced to LIBOR plus 1.250%. The scheduled loan payment in October 1998 of US\$3,571,000 was paid from this account. On January 19, 1999, the entire balance of this account was applied to the bank loan and the account was eliminated (see note 20).

8 Capital Leases

The Company has mining equipment the purchase of which was financed by 5 year leases. These leases are payable in U.S. dollars and bear interest at variable rates ranging from LIBOR plus 3% to LIBOR plus 4% (1997: LIBOR plus 3.5% to LIBOR plus 4%), with quarterly payments. At the end of the five years, the equipment will automatically be owned by the Company. Future minimum annual lease payments, net of interest, are:

	US\$	Cdn\$
1999	3,375	5,168
2000	2,304	3,527
2001	1,693	2,592
2002	1,130	1,730
2003	192	294
	<u>8,694</u>	<u>13,311</u>

9 Share Capital

A) AUTHORIZED

Authorized share capital of the Company consists of 1,000,000,000 (1997: 1,000,000,000) common shares without par value.

B) ISSUED AND ALLOTTED

	Number of shares	\$
Issued at December 31, 1995	30,462,128	51,968
Stock options exercised	1,117,151	3,923
Conversion of debentures	6,615,000	18,526
Exercise of warrants	110,000	770
Issue of special warrants, net of expenses	2,503,500	15,300
Issued at December 31, 1996	<hr/> 40,807,779	<hr/> 90,487
Stock options exercised	49,000	227
Issued at December 31, 1997 and 1998	<hr/> 40,856,779	<hr/> 90,714

C) CONVERTIBLE DEBENTURES

	Liability component \$	Equity component \$	Total \$
Upon issuance, February 1997	27,265	63,582	90,847
Accretion	1,768	4,322	6,090
Interest payments	(3,936)	–	(3,936)
Foreign exchange loss	1,181	–	1,181
December 31, 1997	26,278	67,904	94,182
Accretion	1,893	5,906	7,799
Interest payments	(7,184)	–	(7,184)
Foreign exchange loss	1,700	–	1,700
December 31, 1998	<hr/> 22,687	<hr/> 73,810	<hr/> 96,497

In February, 1997, the Company issued US\$69,000,000 of convertible unsecured subordinated debentures ("the Debentures") for net proceeds of \$90,847,000. Each US\$1,000 Debenture is convertible at the option of the holder into common shares of the Company at a conversion price of US\$6.36 per common share, equivalent to 157.23 common shares per US\$1,000 principal amount of Debenture, subject to certain anti-dilutive provisions. The Debentures bear interest at 7%, payable semi-annually in US dollars, and mature April 1, 2002.

The Debentures are redeemable at the option of the Company at US\$1,000 plus accrued and unpaid interest, provided that the weighted average trading price of the common shares on the Toronto Stock Exchange during 20 consecutive trading days ending five trading days preceding the date on which the notice of redemption is given, exceeds 125% of the conversion price. Upon redemption or maturity of the Debentures, the Company may, at its option, elect to satisfy its obligation to pay principal or the amount due on redemption by issuing and delivering to each holder of Debentures that number of freely tradeable common shares obtained by dividing US\$1,000 by 95% of the weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five days preceding the redemption date.

The market value of the convertible debentures at December 31, 1998 was approximately \$28,500,000.

Subsequent to the year end, the Company proposed a redemption of the Debentures (note 20).

D) OPTIONS

	Number	Exercise price, \$	Expiry
Stock options, December 31, 1996	2,824,550	2.35–8.25	1997–2001
Issued during the year	729,000	5.60	2002
Exercised during the year	(49,000)	4.20–4.65	1999–2000
Cancelled during the year	(439,000)	2.35–8.25	1997–2001
Stock options, December 31, 1997	3,065,550	4.05–8.25	1999–2002
Issued during the year	4,892,550	1.00–2.40	2002–2003
Cancelled during the year	(3,531,000)	2.40–8.25	1999–2003
Stock options, December 31, 1998	4,427,100		

At December 31, 1998 there were 4,427,100 (1997: 3,065,550) shares reserved for issue pursuant to the exercise of stock options by employees and directors of the Company. These options are exercisable at prices ranging from \$1.00 to \$8.25 (which, other than the \$1.00 options which were issued when the fair market value was \$0.60, reflect fair market value at the time the options were granted), and with expiry dates ranging from March 24, 1999 to August 14, 2003. The average price of these outstanding options is \$2.66 per share.

The banks which underwrote the bank credit facility were granted options to purchase 350,000 shares at a price of \$4.55 per share for a five year term expiring May 20, 1999. To December 31, 1998, the banks had exercised 262,500 of these options.

In March 1994, the Company granted options to employees and directors to purchase 355,000 common shares at a price of \$4.90 per share, expiring March 24, 1999. The Company's compensation committee originally recommended that these options be granted in November 1993 at the then market price of \$3.40 per share. These options were not granted at that time because of a concern that bank negotiations that were then underway may have led to material change, which subsequently proved to have been premature. The Company has agreed to provide compensation to the employees and directors for the difference between the \$3.40 and \$4.90 price per share, by way of a bonus, at the time the options are exercised. At December 31, 1998, there were 100,000 of these options outstanding.

10 Hedging

At December 31, 1998, the Company's gold hedging program consisted of the following:

	1999
Put options (ounces)	84,000
Average price per ounce (US\$)	\$ 340
Call options (ounces)	7,460
Average price per ounce (US\$)	\$ 434

The fair value of the Company's gold put options and gold call options amounts to US\$3,883,000. This fair value represents the amount that the Company would have received on December 31, 1998 to settle these instruments prior to their expiry dates. The put options expire on various dates up to December 31, 1999. The call options expired February 28, 1999.

The credit risk exposure related to the Company's gold hedging activities is limited to the unrealized gains on outstanding contracts based on current market prices. The counterparties to the gold hedging are also lenders to the Company and are large international credit-worthy institutions.

11 Income Taxes

The Company has certain resource related deductions and other losses which are available to be offset against future taxable income. The benefits of these deductions and losses are not reflected in these financial statements as there is no virtual certainty that the benefits will be realized. The Company has tax loss carryforwards and deductions available to be utilized in future years totaling approximately \$35 million in Canada and \$101 million in Chile. As a result of the restructuring referred to in note 20B, Canadian tax losses will not likely be available to offset against future taxable income.

The non-capital loss carryforwards in Canada expire as follows:

	\$
1999	1,348
2000	925
2001	1,735
2002	3,229
2003	5,816
2004	5,434
2005	16,865
	<hr/> <u>35,351</u>

12 Related Party Transactions

- Management fees totaling \$59,758 were paid during the period ended March 1, 1998 (year ended December 31, 1997 – \$608,947; year ended December 31, 1996 – \$596,591) to a private corporation controlled by Mr. Wayne McClay, a former President of the Company.
- Royalty payments due under the Andacollo royalty agreement (see note 15) of \$nil were paid to a private corporation controlled by Mr. McClay during the period ended March 1, 1998, while Mr. McClay was a related party (year ended December 31, 1997 – US\$200,000; year ended December 31, 1996 – US\$200,000).
- Of the US\$1,286,000 loan outstanding at December 31, 1997, due from corporations controlled by Mr. McClay, US\$750,000 was forgiven as part of his resignation as President in February 1998, US\$28,000 was charged as interest during 1998, and US\$564,000 was repaid by Mr. McClay during the year.
- Mr. Roland Horst, a former President and Chief Executive Officer of the Company was paid \$800,000 in severance during 1998.
- Legal fees for the period ended May 12, 1998 of \$54,621 (year ended December 31, 1997 – \$212,781; year ended December 31, 1996 – \$153,495) were paid or payable to a legal firm in which a former director of the Company is a senior partner.
- Minesite consulting fees totaling US\$12,308 were paid during the year to a director of the Company.
- Legal fees related to proxy solicitation totaling \$156,928 were paid during the year to a legal firm in which a director of the Company is a senior partner.

13 Segmented Information

The Company's principal activity is the operation of the Andacollo Gold Mine located in Chile.

	1998			1997		
	Canada	Chile	Total	Canada	Chile	Total
Total assets	30,969	93,596	124,565	94,512	128,431	222,943
Capital assets	—	58,150	58,150	—	104,329	104,329
Gold sales revenue	—	45,848	45,848	—	49,553	49,553
Interest income	2,544	179	2,723	3,991	890	4,881
Interest expense	1,893	4,172	6,065	1,769	6,210	7,979
Net income (loss)	(5,749)	(59,100)	(64,849)	(10,977)	(16,642)	(27,619)
Depreciation, depletion and amortization	—	11,774	11,774	—	10,555	10,555
Writtenown of property, plant and equipment	—	51,000	51,000	—	24,000	24,000
Writtenown of marketable securities	805	—	805	976	—	976
Purchases of property, plant and equipment	—	16,442	16,442	—	18,641	18,641

14 Loss Per Share

Loss per share has been calculated based on the weighted average number of shares outstanding. Loss per share has been calculated by increasing the reported net loss by the amount of the increase in the carrying amount of the equity element of the convertible debentures.

15 Commitments

NET SMELTER ROYALTY

The Company's 100% interest in the Andacollo Gold Mine is subject to a 2% net smelter royalty payable to a private corporation controlled by a former President of the Company. The terms of the royalty call for minimum annual royalty payments of US\$200,000 payable quarterly in arrears until an aggregate of US\$5,000,000 in royalty payments have been made. To December 31, 1998 a total of US\$1,850,000 had been paid, of which US\$1,250,000 was paid before the commencement of commercial production and has been capitalized as mining property costs.

16 Supplementary Information

A) CHANGE IN NON-CASH WORKING CAPITAL

	1998	1997	1996
	\$	\$	\$
Bullion settlements receivable	350	(930)	(105)
Other receivables	1,175	(2,803)	330
Inventories	(4,239)	(1,760)	(4,310)
Accounts payable	2,895	984	1,688
	181	(4,509)	(2,397)

B) INTEREST PAID DURING THE YEAR

1998	1997	1996
\$	\$	\$
8,395	9,271	6,620

17 United States Accounting Principles

The effect of the differences between Canadian GAAP and U.S. GAAP on the Company's net loss for the years ended December 31 are summarized below:

- Under Canadian GAAP, gains and losses on translation of long-term debt are deferred and amortized over the term of the debt. Under U.S. GAAP, these gains and losses are reflected in net earnings as they arise.
- Under U.S. GAAP, for any stock options with an exercise price that is less than the market price on the date of grant, the difference between the exercise price and the market price on the date of grant is recorded as compensation expense.
- Under U.S. GAAP, the convertible debenture would be classified entirely as a liability.
- Under U.S. GAAP, the reduction in the carrying value of property, plant and equipment is determined on a discounted cash flow basis.
- Under U.S. GAAP, restricted cash of \$19,694,000 (1997 – \$22,479,000; 1996 – \$6,848,000) would not be included in cash and short term investments on the balance sheets and the statements of changes in financial position. Movements in restricted cash of (\$2,785,000) (1997 – \$15,631,000; 1996 – \$nil) would have been included in investing activities, and the net increase (decrease) in cash and short term investments would have been (\$60,826,000) (1997 – \$57,492,000; 1996 – \$10,115,000).

The significant changes in the consolidated financial statements relative to U.S. GAAP were as follows:

INCOME STATEMENT

	1998 \$	1997 \$	1996 \$
Net income (loss), following Canadian GAAP	(64,849)	(27,619)	(3,409)
Writedown of property, plant and equipment, per Canadian GAAP	2A 51,000	24,000	–
Writedown of property, plant and equipment, per U.S. GAAP	2A (48,213)	(51,000)	–
Decrease in loss due to different cost basis of property, plant and equipment	1A 2,794	–	–
Foreign exchange gains (losses)	1 (3,084)	(1,967)	(247)
Interest expense on convertible debentures	45 (6,061)	(4,279)	–
Foreign exchange on convertible debentures	45 (2,850)	(4,317)	–
Compensation relating to stock options issued at less than market value	–	98	–
Net income (loss), which is equal to comprehensive income (loss), following U.S. GAAP	(71,263)	(65,084)	(3,656)
Weighted average number of common shares computed in accordance with U.S. GAAP (thousands of shares)	40,857	42,071	36,008
Loss per share, U.S. GAAP	\$ (1.74)	\$ (1.55)	\$ (0.10)

BALANCE SHEET

	1998 \$	1997 \$
Property, plant and equipment, following Canadian GAAP	68,919	105,729
Accumulated writedown, per Canadian GAAP	75,000	24,000
Accumulated writedown, per U.S. GAAP	(99,213)	(51,000)
Difference in accumulated depreciation	2,794	–
Property, plant and equipment, following U.S. GAAP	47,500	78,729
Convertible debentures – liability, following Canadian GAAP	22,687	26,278
Interest expense on convertible debentures	(3,661)	(1,768)
Interest payments on convertible debentures	11,120	3,936
Issuance	63,582	63,582
Foreign exchange	11,912	6,677
Convertible debentures – liability, following U.S. GAAP	105,640	98,705
Convertible debentures – equity, following Canadian GAAP	73,810	67,904
Shown as liability under U.S. GAAP upon issuance	(44 (63,582))	(63,582)
Accretion of equity component under Canadian GAAP	(10,228)	(4,322)
Convertible debentures – equity, following U.S. GAAP	–	–
Adjusted deficit, beginning of year, following U.S. GAAP	(79,429)	(14,345)
Loss, following U.S. GAAP	(71,263)	(65,084)
Deficit, following U.S. GAAP	(150,692)	(79,429)

In accordance with the Financial Accounting Standards Board Statement No. 109 ("SFAS 109"), U.S. GAAP requires that income taxes be accounted for by the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement reporting and the tax bases of the assets and liabilities and are measured at the enacted tax rates that will be in effect when the differences are expected to reverse. Such differences principally arise from the timing of income and expense recognition for accounting and tax purposes. The application of SFAS 109 would have no material effect on the assets, liabilities or operations for the years presented in these consolidated financial statements as any deferred tax assets would be eliminated by the recording of a valuation allowance. The tax benefit of the Company's loss carryforwards at December 31, 1998 would be approximately \$35 million (1997 - \$17 million; 1996 - \$10 million).

SOP 98-5, Reporting on the Costs of Startup Activities, becomes effective for the Company in fiscal 1999. FAS 133, Accounting for Derivative Instruments and Hedging Activities, becomes effective under U.S. GAAP for the Company in fiscal 2000. The Company has not yet determined the impact of these reporting requirements.

18 Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

19 Contingencies

Statements of claim were filed on July 17, 1998 in the Second Judicial District Court of the State of Nevada and on August 24, 1998 in the British Columbia Supreme Court against the Company whereby the plaintiff, Medinah Energy Inc. of Nevada claims injurious falsehood relating to certain mineral claims in the Andacollo District. The Company has filed statements of defense and motions to dismiss the claims. The Company considers that the plaintiff's claims are without any merit. No provision has been made in these financial statements for these claims.

20 Subsequent Events

A) BANK LOAN

In January 1999 the Company reached an agreement with its banks regarding the bank loan. The entire balance of the Deposit & Charge Account of US\$7,857,000 and US\$3,000,000 from the Andacollo Contingency Account were released from restriction and together with US\$1,000,000 of unrestricted cash, were applied against the bank loan (see note 7). The Events of Default were waived until April 19, 1999, certain economic ratios were redefined, and the loan rate was maintained at LIBOR plus 1.25% to the end of the life of the loan. The Company believes it is in compliance with its covenants applicable at April 19, 1999. Actual compliance is dependent upon the banks' concurrence with management information.

The loan repayment schedule was amended as follows:

Payment Date	Principal Amount	
	US\$	Cdn\$
April 19, 1999	1,000	1,531
July 19, 1999	1,667	2,552
October 19, 1999	1,667	2,552
January 19, 2000	1,667	2,552

B) REDEMPTION OF CONVERTIBLE DEBENTURES**(i) PROPOSAL**

In March 1999, the Company proposed, and its debentureholders and shareholders approved, that:

- the Debentures be redeemable by the Company into common shares on May 3, 1999 at a rate of 4,500 shares per US\$1,000 principal amount of Debentures,
- the Debentures be convertible until May 3, 1999 into common shares at the option of the Debentureholders at the same rate, and that
- no additional interest shall accrue on the Debentures from March 31, 1999.

(ii) COMPREHENSIVE REVALUATION AND UNAUDITED PRO FORMA BALANCE SHEET

Under Canadian GAAP, the above proposal will require a comprehensive revaluation of assets and liabilities of the Company. The following unaudited pro forma balance sheet gives effect to this proposed transaction, as well as the repayment of the bank loan referred to above.

ASSETS	\$	LIABILITIES & EQUITY	\$
Cash	8,476	Accounts payable	10,813
Investments in marketable securities	533	Bank loan	6,634
Bullion settlements receivable	2,602	Capital lease obligation – current	5,168
Other receivables	1,991	Convertible debentures – liability – current	–
Hedging program	5,100	Current liabilities	22,615
Inventories	14,500		
Current assets	33,202	Bank loan	2,552
Property, plant and equipment	47,500	Capital lease obligation	8,143
Other assets	133	Convertible debentures – liability	–
		Accrued closure costs	2,087
Total assets	80,835	Total liabilities	35,397
		Common shares	45,438
		Convertible debentures – equity	–
		Retained earnings (deficit)	–
		Total shareholders' equity	45,438
		Total liabilities and equity	80,835

This unaudited pro forma balance sheet has been prepared based on the audited consolidated financial statements at December 31, 1998 and gives effect to the following transactions as if they had occurred on December 31, 1998:

- cash payment of \$18,153,000 (US\$11,857,000) of bank loan principal in January 1999
- cash payment of the regularly scheduled \$3,697,000 (US\$2,415,000) interest payment to debenture holders on April 1, 1999
- exchange of the convertible debentures for common shares of the Company at a ratio of 4,500 common shares for each US\$1,000 of principal value of debentures
- adjustment of marketable securities, other receivables, inventories, property, plant and equipment, and other assets, including the Company's hedging programs, to management's best estimate of their fair value
- classification of the net comprehensive revaluation adjustment of \$72,220,000 and the deficit at December 31, 1998 of \$116,196,000 as share capital
- cash payment of estimated costs related to the proposal of \$1,300,000 charged to share capital.

DAYTON

Mining Corporation

Officers and Management

William H. Myckatyn
Chairman of the Board,
President & Chief Executive Officer

R. J. (Don) MacDonald
Senior Vice President, Finance
& Chief Financial Officer

Richard J. Hall
Senior Vice President,
Corporate Development & Exploration

Diane R. Thomas
Vice President, Corporate Development
& Investor Relations

Fred Earnest
Andacollo General Manager

Directors

William H. Myckatyn
Vancouver, British Columbia

James E. Askew □▼
Denver, Colorado

Paul M. Blythe ▼
Whistler, British Columbia

Douglas D. Donald ▢■
New York, New York

David K. Fagin ♦
Denver, Colorado

Catherine A. McLeod-Seltzer □
Vancouver, British Columbia

Herman J. Wilton-Siegel ♦▼
Toronto, Ontario

- ♦ Member of the Audit Committee
- Member of the Compensation Committee
- ▼ Member of the Environmental Committee

Corporate Information

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Company of New York
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Securities Listings
American Stock Exchange
Common Shares Trading Symbol: DAY
Toronto Stock Exchange
Common Shares Trading Symbol: DAY

For further information
For more detailed information and
photographs of the Andacollo operation,
please visit our website at
www.dayton-mining.com

or call or write:
Diane R. Thomas
Vice President, Corporate Development
& Investor Relations
Corporate Headquarters
Vancouver, British Columbia, Canada

Dayton Mining 1999 AGM
Thursday, June 10, 1999 at 10:00 am
Terminal City Club
1021 West Hastings Street
Vancouver, British Columbia



